# *Prince Edward Island Energy Corporation*

# *Annual Report for Fiscal Year*

# *2002/03*

## Board of Directors:

Paul Jelley, Chairman
*Deputy Minister of Development & Technology*

Leo Walsh, Vice Chairperson
*Deputy Minster of Intergovernmental Affairs*

Reagh Hicken, Treasurer
*Department of Development & Technology*

Wayne MacQuarrie, Secretary
*Department of Development & Technology*

Jim Young
*Acting for the Deputy Minister of Fisheries, Aquaculture & Environment*

Steve MacLean
*Deputy Minister of Transportation & Public Works*

Joe Murphy

## Staff:

Wayne MacQuarrie, CEO

Dawn Larter, Administrative Assistant

The Honourable Michael Currie
Department of Development & Technology
P.O. Box 2000
Charlottetown, PE C1A 7N8

Dear Minister:

It is my pleasure to provide you with the attached Annual Report for the operations of the Prince Edward Island Energy Corporation for fiscal year 2002-2003. The report provides a summary of the activities of the Atlantic Wind Test Site Incorporated as well as a description of the accomplishments of the Energy Corporation during this period. Financial statements for fiscal year 2002-2003 have been included for both operations.

The Annual Report is prepared and submitted in accordance with Section 10 (1) of the **Energy Corporation Act**.

Respectfully submitted,

Paul Jelley
Chairman
P.E.I. Energy Corporation

## 1.0 INTRODUCTION

This marks the 21st Annual Report that has been submitted by the P.E.I. Energy Corporation and covers the periods April 1, 2002 to March 31, 2003. The Energy Corporation was established by the Energy Corporation Act in 1978 with a mandate to develop and promote energy systems on an economic and efficient basis. Since its inception, the Corporation has operated within the general framework of the province's energy policy and is under the auspices of the Minister responsible for the provincial energy portfolio.

## 2.0 BOARD OF DIRECTORS

The members of the Board of Directors and their terms of office as of March 31, 2003 were:

| NAME | POSITION HELD | TERM OF APPOINTMENT |
|---|---|---|
| Paul Jelley | Chairperson | November 10, 1998 - at pleasure |
| Leo Walsh | Vice Chairperson | May 8, 2001 - at pleasure |
| Joe Murphy | Director | May 8, 2001 - April 10, 2004 |
| Jim Young* | Acting Director | November 10, 1998 - at pleasure |
| Reagh Hicken | Treasurer-Director | November 10, 1998 - at pleasure |
| Steve MacLean | Director | November 10, 1998 - at pleasure |
| Wayne MacQuarrie | Secretary-Director | May 8, 2001 - at pleasure |

* *Acting for the Deputy Minister of the Department of Fisheries, Aquaculture and Environment*

## 3.0 STAFF

During the 2002-2003 fiscal year, Wayne MacQuarrie continued to carry out duties as the Chief Executive Officer of the Energy Corporation and also provided direction to the staff of the Energy and Minerals Section of the Department of Development & Technology. In this time frame his administrative assistant, Melanie Jackson, ended her secondment to the Corporation and returned to her position with the Department of Transportation & Public Works. After a competition process, Dawn Larter was awarded the position of Administrative Assistant and has previous public service experience from employment with Access PEI.

## 4.0 SUMMARY OF ACTIVITIES

### PRINCE EDWARD ISLAND ENERGY CORPORATION

Pursuing a natural gas development plan for Prince Edward Island continued to be the focus of the Corporation's activities during this fiscal year. However, through the Corporation, quantifying the future role of renewable energy sources, particularly wind power was also assessed. With more than a year's operating experience since its commissioning in November 2001, the Energy Corporation's 5.28 Megawatt wind farm in North Cape operated at a very high level of availability and productivity. Plans were formulated to double the facility's capacity at the North Cape site. Including these projects, the following is a summary of the Corporation's activities for the past fiscal year.

#### Natural Gas Development Plan

Several significant events occurred that influenced Prince Edward Island's plan to bring natural gas to the Island. During July 2002, Emera Energy purchased the rights owned by Westcoast Power for the PEI Natural Gas Development Plan. Emera retained the original project manager from Westcoast to continue with the PEI project. By October 2002, a detailed power plant cost analysis by Emera and Maritime Electric Company Ltd. (MECL) was completed.

The partners for the PEI project, that includes the Province, MECL and Emera signed a term sheet with EnCana Corporation for the supply of natural gas. However, in

February 2003, EnCana announced a "time out" on their Deep Panuke Development Plan to allow a further assessment of the economic viability of this field, while developing gas supplies in other areas of the Scotian Shelf. As part of their request for a time out, EnCana has committed to report back to the regulators, the National Energy Board and the Canada-Nova Scotia Offshore Petroleum Board, in December 2003.

Defining a pipeline lateral cost was also pursued. In February 2003, the Province requested an up-to-date financial assessment of constructing a natural gas pipeline to PEI. Maritimes&Northeast Pipeline have provided information that their latest cost estimate is $98 million within a range of accuracy specified as +40% to -15%.

## Regulatory Matters

In July 2002, the Province intervened in the National Energy Board (NEB) Hearing into Short-Term Exports of Natural Gas that was called in response to a request from the Province of New Brunswick. In its arguments, New Brunswick claimed that, because short-term exports were not subject to NEB review, producers could by-pass prospective Canadian consumers in favour of the more lucrative US Northeast markets. PEI also similarly argued that this could be the case and the Province was frustrated by the pace of discussions with suppliers for gas to meet its planned PEI Natural Gas Development Plan. Despite the NEB's decision to not interfere with the operations of the marketplace, after the conclusion of the hearings EnCana began to entertain serious discussions with the Province that resulted in the signing of a term sheet for natural gas supplies for PEI projects.

The NEB hearing into a proposal by Maritimes & Northeast Pipeline(M&NP) to expand its facilities to accommodate an extra 400,000 MMBtu/day of gas from the Deep Panuke Project commenced in October 2002. Prince Edward Island argued in favour of this proposal, particularly as the some of the potential new supply carried by the expanded facilities may be destined for Island projects. The NEB conditionally approved the proposal pending M&NP's filing further evidence that detailed final design of the expanded facilities, based on firm volumes of gas.

## North Cape Wind Farm Production - Phase I

After over a full year of operation since its commissioning in November 2001, the 5.28 Megawatt facility at North Cape continues to perform at a high level of availability and productivity. Annual generation of approximately 19 Gigawatt-hours (nineteen million kilowatt-hours) exceeded projections by almost 12%. The comparison of actual production to projected values is displayed in the Table below. It may also be noted that the winter months provide the highest production levels. This favourably coincides with the time of the year in which electricity prices are at their highest level.

| Month | Projected Electrical Production (kilowatt-hours) | Actual Energy Production (kilowatt-hours) |
|---|---|---|
| April 2002 | 1,206,000 | 1,674,111 |
| May 2002 | 1,232,000 | 1,487,210 |
| June 2002 | 1,131,000 | 1,115,786 |
| July 2002 | 1,033,000 | 838,747 |
| August 2002 | 1,060,000 | 1,059,314 |
| September 2002 | 1,288,000 | 1,419,502 |
| October 2002 | 1,659,000 | 2,007,049 |
| November 2002 | 1,750,000 | 1,648,976 |
| December 2002 | 1,872,000 | 2,235,081 |
| January 2003 | 1,564,000 | 1,955,746 |
| February 2003 | 1,388,000 | 1,726,886 |
| March 2003 | 1,417,000 | 1,567,367 |
| Total | 16,600,000 | 18,735,775 |

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## Planning for Phase II of the North Cape Wind Farm

The unqualified success of the Energy Corporation's North Cape Wind Farm has initiated plans for doubling the wind capacity of the site to 10.56 Megawatts. Some of the costs incurred for infrastructure during Phase I, such as the power transformer and the 69 kilovolt transmission line, have been already capitalized but will be available for Phase II. Combining the lower unit costs of this generation with access to profits obtained from Phase I , the economic feasibility of Phase II is greatly enhanced.

To date, the Vestas V-47 wind turbines have proven to be a highly reliable wind machine. It is expected that eight more of these units will be installed by Fall 2003, pending regulatory approval. Other factors that favor proceeding with the V47 for Phase II include utilizing the experience that has been gained working on these machines and the desire to maintain a uniform spare parts inventory.

## Oil & Natural Gas Exploration

Interest for natural gas exploration maintained a high level during the past year with over one million acres under permit for this activity. In the Summer of 2002, Rally Energy Corporation of Calgary, Alberta ran 115 kilometres of shot-hole seismic lines in the Summerside and Kensington areas to identify possible drilling targets. The company was also successful in acquiring, through a competitive bid process, PEI Oil & Natural Gas Permit 02-01 that is located in central Prince County.

Rally Energy Corporation began drilling the Irishtown #2 exploratory well in February 2003. Unfortunately, commercial resources of gas were not located and the well was plugged and abandoned. Rally continues to assess drilling targets and is planning at least one more well in the area for later in the year.

Seismic lines totalling approximately 85 kilometres in length were run in eastern Kings County by Meteor Creek Resources to assess potential reservoirs in the area. This work was accomplished using vibroseis technology.

## Renewable Energy Strategy

Given its mandate to promote and develop energy systems and past experiences with developing alternate energy projects, the PEI Energy Corporation was tasked with preparing a draft Renewable Energy Strategy for public comment. It is expected that a series of public consultation sessions will be conducted in several Island communities by late Spring 2003. These sessions will explain the contents of this draft document and solicit comment on several key policy issues that may impact on the future development of renewable energy in the Province.

The notion of a Renewable Portfolio Standard (RPS) that applies to electricity generation has been discussed in the draft strategy. It has been proposed that renewable energy, namely wind power, has the ability to supply Islanders with at least 10% of their electricity needs by 2010. The source of this supply, whether it be from private companies or public institutions, such as the Corporation, requires public comment. Enabling smaller wind installations to supply some of the energy to meet the RPS may require incentives or financial mechanisms that improves the existing low financial feasibility for these projects. Such mechanisms as net metering may provide the economic incentive for individual homeowners, small businesses and communities to invest in small power systems with the expectation of receiving a reasonable return on their investment.

## Climate Change Strategy

In December 2002, the Government of Canada ratified the Kyoto Protocol that will require the country to reduce its greenhouse gas emissions to 6% less than the 1990 level within the international reporting dates of 2008 to 2012. Meeting the Kyoto target will be a challenge as Canada's greenhouse gas inventory continues to increase. A federal plan to meet this challenge was released. Most provinces and territories, including Prince Edward Island, have formulated their own business plans to reduce greenhouse gas emissions in their jurisdictions.

Prince Edward Island's first business plan to reduce greenhouse gas emissions - *Curbing Climate Change*, was released in September 2001. This document listed initiatives that were mainly directed by the provincial government. Noted were the measures led by the Energy Corporation, such as installing wind power capacity on Prince Edward Island. The Corporation was also responsible for developing district heating applications with biomass in Charlottetown. This infrastructure continues under private management.

Formulating a second business plan to reduce the Province's greenhouse gas emissions will build upon the initiatives listed in its predecessor document. However, it is expected the next plan will provide a broader menu of initiatives which will include participation by private business and individual Islanders, as well as publicly funded components. The Corporation is expected to take a lead role in developing this document.

## Vestas V-90 Project

It was not a coincidence that Vestas-Canadian Wind Technologies selected a site about 2 kilometers south of the PEI Energy Corporation's Wind Farm off the Norway Road in western Prince County to test their prototype V-90 wind machine. The company has observed the excellent wind regime in the area as they were suppliers of the turbines for the Corporation's facility. Another factor contributing to their decision is the expertise that has been developed at the Atlantic Wind Test Site and the cooperation that the Energy Cooperation has extended to Vestas.

The V-90 will be the tallest wind turbine in North America once construction begins in late Summer 2003. Tower height for the turbine will be approximately 80 meters for this 3.0 Megawatt wind machine that has a rotor diameter of 90 meters. The project will also entail the construction of a pad- mount transformer and a 69 kilovolt transmission line from the Norway Road to the Energy Corporation's line on Highway 12. Presently, negotiations are underway with Vestas for the utilization of the Corporation's line to the Huntley substation outside Alberton.

Involvement of the Corporation with the V-90 project has also included assisting Vestas with obtaining the rental agreement for the property and preparing environmental and other regulatory documents. Combined with both Phase I and Phase II, the Province will be acquiring 5% of its electrical requirements from wind power when the V-90 turbine is commissioned in late 2003.

## Atlantic Ministers' Forum on Energy

On May 21, 2002 the inaugural meeting of the Atlantic Ministers' Forum on Energy was held in Charlottetown, PEI with Minister Michael Currie acting as lead. This group was formed by mandate from Atlantic Premiers who noted that energy issues could best be resolved through regional cooperation and collaboration. During the

meeting the CEO of the Prince Edward Island Energy Corporation provided a presentation that suggested several areas of collaboration:

- exploration and development of indigenous resources
- provision of reliable and competitive energy sources
- promotion of safety and environmental protection
- energy efficiency and security of supply
- development of new forms of energy
- utilization of renewable energy
- enhancement of business development
- infrastructure planning and jurisdictional energy exchange

It was agreed at this meeting that Atlantic Energy Ministers would begin to proceed on the following topics:

1. Clarify and harmonize energy regulations and regulatory frameworks;
2. Promote increased collaboration among provincial electricity utilities, including the establishment of a dialogue to explore the feasibility of a Regional Transmission Organization (RTO);
3. Develop a common voice for future discussions with the federal government, energy organizations and United States energy offices;
4. Develop a regional strategy on energy efficiency;
5. Develop a regional response to climate change issues.

Progress has been made on several of these issues. Upcoming meetings are expected to discuss regional planning for electrical generation. It is also anticipated that considerations will be made for greater flexibility in allowing renewable energy sources to comprise a larger portion of the regional electrical generation mix. Both these issues are of utmost importance to PEI's energy plans.

## ATLANTIC WIND TEST SITE

The Atlantic Wind Test Site (AWTS) was established in 1980 as National Wind Energy Laboratory and has become the country's premiere research and development center for wind energy. As a subsidiary of the Prince Edward Island Energy Corporation, AWTS receives funding from the Governments of Prince Edward Island and Canada. Another source of revenue is contract work for researching and testing wind technology.

During this reporting period activities at AWTS have encompassed four strategic areas as presented below.

## Testing

The testing of wind turbines was the initial reason for establishing AWTS. Testing of wind technology continues as an important activity at the facility. Several wind turbines that are now available to the market were first tested at the North Cape site. Some of these turbines remain at AWTS for long term testing and for use in other development programs.

Turbines that are being tested and evaluated include:

*Lagerway 18/80*: Dutch Industries of Regina, Saskatchewan is marketing these turbines in Canada. A Lagerway 18/80 was installed in 1993 and continues to provide long term operating experience. This unit is also being used for advanced inverter and control system technology development.

*Atlantic Orient Corporation 15/50*: AWTS has been operating an AAC 15/50, 65 kilowatt turbine since 1993. This turbine is of interest for Canadian applications because it is particularly well suited for remote community applications.

*Wenvor-Vergnet Canada 7/25*: Wenvor Technologies, an Ontario wind turbine manufacturer that is in collaboration with Vergnet SA of France is working with AWTS to evaluate and further develop their 25 kilowatt wind turbine for both Canadian and international markets. The turbine has been in and out of service as problems are identified and resolved with design changes.

*Vergnet 15/60 and Vergnet GEV 7/10*: These 60 kilowatt and 10 kilowatt turbines were installed at AWTS in April 2002 and testing and evaluation continues.

## Technology Development

Technology development continues to be an important element of AWTS activity. Two notable projects have been under development during the past several years.

The integration of fuel-saving wind turbines with diesel generating sets is a significant innovation for remote community electrical systems and Canada has advanced technology under development. AWTS has developed Canada's only wind-diesel test bed which has allowed the facility to test and formulate wind-diesel configurations and control systems to achieve reliable and smooth operation.

Reliable and economic wind-diesel systems, with good power quality, requires computerized control. To meet this challenge, AWTS has developed an advanced Wind-Diesel Integrated Control System (WDICS) which will be installed in a demonstration project in Newfoundland & Labrador later this year.

Another innovative project that had been under study at AWTS was the Vertical Axis Wind Turbine (VAWT). This design, pioneered in Canada over twenty years ago, has many key advantages over horizontal turbine designs, such as convenient access at ground level for maintenance and repair. Vertical axis machines also do not require a yawing system to align the wind turbine with the wind direction. AWTS staff computer simulated a "dynamically soft" design using non-rigid supports. Unfortunately, the VAWT project has been suspended due to lack of financial and human resources.

## Collaborative Research & Development

AWTS continues to expand its collaborations with other institutions and the private sector to advance technology development. Combining the strengths of AWTS with other groups greatly enhances the rate and quality of developments.

Over the years, AWTS has collaborated with the University of New Brunswick's Department of Electrical and Computer Engineering Department in a number of projects. These efforts have resulted in the design and testing of several innovative new inverters that efficiently convert variable wind and solar power to stable, utility-grade electrical power. The University has established its Solar Energy Research Facility at the site to capitalize on this cooperative relationship. The collaboration has also produced a 50 kilowatt direct drive generator that may be used with vertical axis wind turbines.

**Public Information**

AWTS serves as a primary source of technical information for the government and private sectors. During the year, AWTS hosted several school groups, renewable energy engineers, scientists and wind technology enthusiasts. The North Cape facility and surrounding area continues to grow as a popular tourist destination. Completion of Phase II of the Energy Corporation's Wind Farm and the erection of the Vestas V-90 turbine will increase the attraction as will plans to construct a restaurant and wind-energy interpretive center at the site of the Wind & Reef Restaurant at North Cape. It is expected that AWTS will assist the interpretive center in developing an interactive display for this facility.

## 5.0 FINANCIAL STATEMENTS

The non-consolidated and consolidated financial statements for the year ending March 31, 2003 as prepared by the auditors of the Prince Edward Island Energy Corporation and the Atlantic Wind Test Site follow:

Non-consolidated Financial Statements of

# PRINCE EDWARD ISLAND ENERGY CORPORATION

Year ended March 31, 2003

Beaton Fitzpatrick Murray

BFM

Beaton Fitzpatrick Murray
Chartered Accountants

A.W. Beaton, CA
G.J. Fitzpatrick, CA
J.G. Murray, CA
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# AUDITORS' REPORT TO THE DIRECTORS

We have audited the non-consolidated balance sheet of Prince Edward Island Energy Corporation as at March 31, 2003 and the non-consolidated statements of earnings - operating, surplus and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these non-consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2003 and the results of its operations and the changes in its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles, except that they are prepared on a non-consolidated basis as disclosed in Note 1(a).

Beaton Fitzpatrick Murray

Chartered Accountants

Charlottetown, P.E.I.
May 14, 2003

# PRINCE EDWARD ISLAND ENERGY CORPORATION

Non-consolidated Balance Sheet

March 31, 2003, with comparative figures for 2002

| | 2003 | 2002 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | $ 1,717,239 | $ 445,092 |
| Accounts receivable (note 2) | 291,285 | 662,073 |
| Prepaid expenses | 71,452 | - |
| | 2,079,976 | 1,107,165 |
| Investment in The Atlantic Wind Test Site Inc. | 1 | 1 |
| Capital assets (note 3) | 8,388,635 | 8,719,170 |
| | $ 10,468,612 | $ 9,826,336 |
| **Liabilities and Surplus** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 413,182 | $ 130,467 |
| Payable to Province of Prince Edward Island (note 4) | 87,350 | - |
| Current portion of long-term debt | 415,113 | 388,671 |
| | 915,645 | 519,138 |
| Long-term debt (note 5) | 8,401,670 | 8,816,783 |
| Surplus | 1,151,297 | 490,415 |
| Commitments (note 8) | | |
| | $ 10,468,612 | $ 9,826,336 |

See accompanying notes to non-consolidated financial statements.

On Behalf of the Board:

Director

Director

# PRINCE EDWARD ISLAND ENERGY CORPORATION

Non-consolidated Statement of Earnings - Operating

Year ended March 31, 2003, with comparative figures for 2002

| | 2003 | 2002 |
|---|---|---|
| Revenue: | | |
| Grants - Province of Prince Edward Island | $ 586,600 | $ 233,408 |
| Income - projects | 84,700 | 79,492 |
| Wind Farm (page 9) | 1,959,216 | 1,027,013 |
| | 2,630,516 | 1,339,913 |
| Expenses: | | |
| Projects - regular | 84,700 | 79,492 |
| - Wind Farm (page 9) | 1,298,334 | 578,087 |
| Administration: | | |
| Advertising | 2,045 | 128 |
| Audit | 2,103 | 2,448 |
| Consulting fees | 81,650 | 64,764 |
| Materials and supplies | 13,391 | 1,844 |
| Miscellaneous | 310 | 200 |
| Office and computer equipment | 5,092 | 4,982 |
| Office supplies | 1,037 | 726 |
| Professional fees | 152,836 | 12,166 |
| Telephone | 3,342 | 2,617 |
| Travel | 37,378 | 12,164 |
| Vehicle allowance | 7,702 | 7,698 |
| Wages and employee benefits | 244,635 | 127,998 |
| | 1,934,555 | 895,314 |
| Earnings before the undernoted | 695,961 | 444,599 |
| Other income - interest | - | 4,312 |
| Net earnings | $ 695,961 | $ 448,911 |

See accompanying notes to non-consolidated financial statements.

# PRINCE EDWARD ISLAND ENERGY CORPORATION

Non-consolidated Statement of Surplus

Year ended March 31, 2003, with comparative figures for 2002

| | | 2003 | | 2002 |
|---|---|---|---|---|
| Surplus, beginning of year | $ | 490,415 | $ | 41,504 |
| Earnings - operating for the year (page 2) | | 695,961 | | 448,911 |
| | | 1,186,376 | | 490,415 |
| Contributions to Province of Prince Edward Island | | (35,079) | | - |
| Surplus, end of year | $ | 1,151,297 | $ | 490,415 |

See accompanying notes to non-consolidated financial statements.

# PRINCE EDWARD ISLAND ENERGY CORPORATION

Non-consolidated Statement of Cash Flows

Year ended March 31, 2003, with comparative figures for 2002

| | 2003 | 2002 |
|---|---|---|
| Cash flows from operating activities: | | |
| Cash receipts from customers | $ 2,984,717 | $ 681,562 |
| Cash paid to suppliers and employees | (624,455) | (384,952) |
| Interest received | 16,588 | 4,312 |
| Interest paid | (601,332) | (250,572) |
| | 1,775,518 | 50,350 |
| Cash flows from investing activities: | | |
| Decrease in deposit and engineering costs | - | 1,226,684 |
| Purchase of capital assets | (114,700) | (8,904,686) |
| | (114,700) | (7,678,002) |
| Cash flows from financing activities: | | |
| Repayments on long-term borrowings | (388,671) | (154,547) |
| Proceeds from long-term borrowings | - | 9,360,000 |
| | (388,671) | 9,205,453 |
| Net increase in cash and equivalents | 1,272,147 | 1,577,801 |
| Cash and equivalents, beginning of year | 445,092 | (1,132,709) |
| Cash and equivalents, end of year | $ 1,717,239 | $ 445,092 |

See accompanying notes to non-consolidated financial statements.

The Prince Edward Island Energy Corporation is a Crown corporation established by the Energy Corporations Act, and therefore is exempt from income taxes under Section 149(1)(d) of the Canadian Income Tax Act. The Corporation's principal business activities include the development and promotion of energy systems.

**1. Significant accounting policies:**

(a) Non-consolidated financial statements:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles except that they have not been consolidated with those of the Corporation's subsidiary.

The investment in the subsidiary is accounted for by the cost method, whereby income of the subsidiary is recorded in the accounts only to the extent of dividends received during the year.

The Canadian Institute of Chartered Accountants has recommended that financial statements prepared for issuance to shareholders should normally be prepared on a consolidated basis. In addition, the C.I.C.A. has recommended that the equity method be used to account for investments in companies over which the corporation is able to exercise significant influence. However, in this case, the shareholders have access to all pertinent information concerning the resources and results of operations of the corporation and its subsidiary as a group, and they have unanimously agreed that they do not require consolidated financial statements for presentation at the annual meeting of the shareholders. In addition, they have unanimously agreed that they do not require the investment in the associated company to be accounted for by the equity method. Accordingly, the accounts of the subsidiary have not been prepared on a consolidated basis, and the investment in the associated company has not been accounted for by the equity method. As these financial statements have not been prepared for general purposes, some users may require further information.

Consolidated financial statements have been prepared separately.

(b) Capital assets:

Capital assets related to the North Cape Wind Generating Plant are recorded at cost. Office furniture and equipment and computer equipment are fully expensed in the year of acquisition. The amount expensed during the year ended March 31, 2003 was $ 3,152. (2002 - $ 4,941.).

**1. Significant accounting policies (continued):**

(b) Capital assets (continued):

Depreciation is provided using the straight-line method at the following annual rate:

| Asset | Rate |
|---|---|
| Wind Farm | 20 years |

Depreciation will not be provided on the work in progress - Norway line until the project is completed next year.

(c) Financial instruments:

The Corporation's financial instruments consist of cash, accounts receivable, accounts payable and long-term debt. Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

(d) Use of estimates:

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

**2. Accounts receivable:**

| | 2003 | 2002 |
|---|---|---|
| Maritime Electric | $ 291,285 | $ 264,680 |
| Province of Prince Edward Island | - | 11,700 |
| G.S.T. | - | 385,693 |
| | $ 291,285 | $ 662,073 |

**3. Capital assets:**

| | Cost | Accumulated depreciation | 2003 Net book value | 2002 Net book value |
|---|---|---|---|---|
| Wind Farm | $ 8,904,685 | $ 630,750 | $ 8,273,935 | $ 8,719,170 |
| Work in progress - Norway line | 114,700 | - | 114,700 | - |
| | $ 9,019,385 | $ 630,750 | $ 8,388,635 | $ 8,719,170 |

**4. Payable to Province of Prince Edward Island:**

| | 2003 | 2002 |
|---|---|---|
| Permit fees | $ 52,271 | $ - |
| Payment of surplus to Province of Prince Edward Island | 35,079 | - |
| | $ 87,350 | $ - |

**5. Long-term debt:**

| | 2003 | 2002 |
|---|---|---|
| Bank of Montreal, 6.6%, payable in equal monthly payments of principal and interest of $ 82,051., due October 2016, secured by signed commitment letter and Province of Prince Edward Island Order in Council guaranteeing full amount of loan | $ 8,816,783 | $ 9,205,454 |
| Less current portion of long-term debt | 415,113 | 388,671 |
| | $ 8,401,670 | $ 8,816,783 |

The aggregate maturities of long-term debt for each of the five years subsequent to March 31, 2003 are as follows: 2004 - $ 415,113.; 2005 - $ 443,355.; 2006 - $ 473,517.; 2007 - $ 505,733.; and 2008 - $ 540,140.

**6. Government funding:**

The total amount of funding authorized by the Province of Prince Edward Island for the March 31, 2003 fiscal year was $ 671,300. (2002 - $ 312,900.). Of the total amount authorized, the Prince Edward Island Energy Corporation used $ 636,221. (2002 - $ 312,915.).

**7. Related party transactions:**

The Corporation has a wholly owned subsidiary, The Atlantic Wind Test Site Inc., which conducts wind energy research on Prince Edward Island. The investment consists of 5,000 common shares without nominal or par value.

Included in regular project expenses are payments of $ 84,700. (2002 - $ 79,492.) to the subsidiary. Included in accounts payable and accrued liabilities is $ 62,621. (2002 - $ 46,162.) which represents amounts payable by the Corporation to its subsidiary at March 31, 2003.

The above transactions have been measured at fair value as determined by management.

**8. Commitments:**

The Corporation has entered into an agreement with The Atlantic Wind Test Site Inc. to pay 3% of gross annual revenues with regard to the North Cape Wind Generating Plant as a Capital Investment Contribution. The contribution is calculated at the end of each fiscal year and is based on the current year's energy generation and electrical revenue. The contribution payable for the 2003 year was $ 58,277. (2002 - $ 30,810.).

The Corporation has also committed to provide $ 42,500. of computer communication equipment for the North Cape Wind Interpretive Centre.

**9. Off-balance sheet financial instruments:**

To manage its current and anticipated exposure to interest rate risks, the Corporation has entered into an interest rate swap contract whereby it has fixed the interest rate on a total of $ 9,360,000. of notional principal against the floating interest position assumed by the Bank of Montreal. The swap contract has an effective interest rate of 6.6% and will mature in October 2016.

# PRINCE EDWARD ISLAND ENERGY CORPORATION

Non-consolidated Statement of Earnings - Wind Farm

Year ended March 31, 2003, with comparative figures for 2002

| | 2003 | 2002 |
|---|---|---|
| Revenue: | | |
| Maritime Electric | $ 1,942,578 | $ 977,013 |
| Wind Farm - other | 50 | 50,000 |
| Interest | 16,588 | - |
| | 1,959,216 | 1,027,013 |
| Expenses: | | |
| Administration | 2,628 | - |
| Amortization | 445,235 | 185,515 |
| Capital contributions | 58,277 | 30,810 |
| Consultants | 8,863 | - |
| Electricity | 9,823 | 4,563 |
| Insurance | 49,550 | 10,612 |
| Interest on long-term debt | 593,881 | 306,515 |
| Miscellaneous | 3,678 | 280 |
| Repairs and maintenance | 14,383 | 8,553 |
| Service and warranty fees | 112,016 | 31,239 |
| | 1,298,334 | 578,087 |
| | $ 660,882 | $ 448,926 |

See accompanying notes to non-consolidated financial statements.

Consolidated Financial Statements of

# PRINCE EDWARD ISLAND ENERGY CORPORATION

Year ended March 31, 2003

Beaton Fitzpatrick Murray

BFM

Beaton Fitzpatrick Murray
Chartered Accountants

A.W. Beaton, CA
G.J. Fitzpatrick, CA
J.G. Murray, CA
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# AUDITORS' REPORT

To the Directors of
Prince Edward Island Energy Corporation

We have audited the consolidated balance sheet of Prince Edward Island Energy Corporation as at March 31, 2003 and the consolidated statements of earnings - operating, surplus and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2003 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Beaton Fitzpatrick Murray

Chartered Accountants

Charlottetown, P.E.I.
May 20, 2003

Associated with
BDO Dunwoody LLP

## PRINCE EDWARD ISLAND ENERGY CORPORATION

Consolidated Balance Sheet

March 31, 2003, with comparative figures for 2002

| | 2003 | 2002 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash | $ 1,871,338 | 568,970 |
| Accounts receivable | 356,992 | 891,637 |
| Holdbacks receivable | 21,620 | 21,620 |
| Prepaid expenses | 74,697 | 2,496 |
| Work in progress | - | 6,389 |
| Restricted cash | 5,243 | 8,901 |
| | 2,329,890 | 1,500,013 |
| Capital assets (note 2) | 8,388,635 | 8,719,170 |
| | $10,718,525 | 10,219,183 |
| LIABILITIES AND SURPLUS | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 442,648 | 207,345 |
| Payable to Province of Prince Edward Island | 87,350 | |
| Royalties payable (note 3) | 28,746 | 126,650 |
| Deferred revenue - projects | 33,464 | 79,531 |
| Current portion of long-term debt | 415,113 | 388,671 |
| | 1,007,321 | 802,197 |
| Long-term debt (note 4) | 8,401,670 | 8,816,783 |
| Reserve for equipment | 144,824 | 99,148 |
| Surplus (note 5) | 1,164,710 | 501,055 |
| Contingency (note 5) | | |
| | $10,718,525 | 10,219,183 |

See accompanying notes to consolidated financial statements

On Behalf of the Board:

Director

Director

## PRINCE EDWARD ISLAND ENERGY CORPORATION

Consolidated Statement of Earnings - Operating

Year ended March 31, 2003, with comparative figures for 2002

| | 2003 | 2002 |
|---|---|---|
| Revenues: | | |
| Grants - Province of Prince Edward Island | $ 671,300 | 312,900 |
| - Government of Canada | 230,401 | 232,608 |
| Wind Farm | 1,959,216 | 1,027,013 |
| | 2,860,917 | 1,572,521 |
| Expenses: | | |
| Advertising | 2,045 | 128 |
| Audit | 6,420 | 7,433 |
| Consulting fees | 87,353 | 67,746 |
| Heat and lights | 8,768 | 7,809 |
| Insurance | 6,747 | 5,472 |
| Interest and bank charges | 66 | 12,596 |
| Lightning strike | - | 1,362 |
| Materials and supplies | 24,758 | 9,554 |
| Miscellaneous | 9,304 | 5,485 |
| Office and computer equipment | 18,082 | 8,501 |
| Office supplies | 8,432 | 7,254 |
| Operations and maintenance | 3,554 | 675 |
| Professional fees | 152,836 | 12,166 |
| Telephone | 7,917 | 7,744 |
| Travel | 50,826 | 22,221 |
| Vehicle allowance | 7,702 | 7,698 |
| Wages and levies | 500,413 | 364,561 |
| Wind Farm | 1,298,334 | 578,087 |
| Wenvor Vergnet 2002 | - | 12,688 |
| | 2,193,557 | 1,139,180 |
| Earnings before the undernoted | 667,360 | 433,341 |
| Earnings - projects | 31,374 | 29,721 |
| Other income (note 6) | - | 4,312 |
| Net earnings | $ 698,734 | 467,374 |

See accompanying notes to consolidated financial statements

## PRINCE EDWARD ISLAND ENERGY CORPORATION

Consolidated Statement of Surplus

Year ended March 31, 2003, with comparative figures for 2002

| | 2003 | 2002 |
|---|---|---|
| Surplus, beginning of year | $ 501,055 | 33,681 |
| Earnings - operating for the year (page 2) | 698,734 | 467,374 |
| | 1,199,789 | 501,055 |
| Contribution to Province of Prince Edward Island | (35,079) | - |
| Surplus, end of year | $ 1,164,710 | 501,055 |

See accompanying notes to consolidated financial statements

## PRINCE EDWARD ISLAND ENERGY CORPORATION

Consolidated Statement of Cash Flows

Year ended March 31, 2003, with comparative figures for 2002

| | 2003 | 2002 |
|---|---|---|
| Cash flows from operating activities: | | |
| Cash receipts from customers | $ 3,529,037 | 1,459,718 |
| Cash paid to suppliers and employees | (1,187,823) | (1,075,871) |
| Interest received | 16,588 | 4,312 |
| Interest paid | (601,397) | (263,169) |
| | 1,756,405 | 124,990 |
| Cash flows from investing activities: | | |
| Decrease in deposit and engineering costs - Wind Farm | - | 1,226,684 |
| Purchase of capital assets | (114,700) | (8,904,686) |
| | (114,700) | (7,678,002) |
| Cash flows from financing activities: | | |
| Repayments on long-term borrowings | (388,671) | (154,547) |
| Proceeds from long-term borrowings | - | 9,360,000 |
| Increase in reserve for equipment | 45,676 | 30,810 |
| | (342,995) | 9,236,263 |
| Net increase in cash | 1,298,710 | 1,683,251 |
| Cash, beginning of year | 577,871 | (1,105,380) |
| Cash, end of year | $ 1,876,581 | 577,871 |
| Represented by: | | |
| Cash | 1,871,338 | 568,970 |
| Restricted cash | 5,243 | 8,901 |
| | $ 1,876,581 | 577,871 |

See accompanying notes to consolidated financial statements

Prince Edward Island Energy Corporation is a Crown corporation established by the Energy Corporations Act, and therefore is exempt from income taxes under Section 149(1)(d) of the Canadian Income Tax Act. The company's principal business activities include the development and promotion of energy systems.

**1. Significant accounting policies:**

(a) Basis of presentation:

The consolidated financial statements include the accounts of the corporation's 100% owned subsidiary, The Atlantic Wind Test Site Inc.

(b) Work in progress:

Work in progress is stated at the lower of cost and net realizable value.

(c) Capital assets:

Capital assets related to the North Cape Wind Generating Plant are recorded at cost. Office furniture and equipment and computer equipment are fully expensed in the year of acquisition.

Depreciation is provided using the straight-line method at the following annual rate:

| Asset | Rate |
|---|---|
| Wind Farm | 20 years |

(d) Financial instruments:

The Corporation's financial instruments consist of cash, accounts receivable, accounts payable and long-term debt. Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

1. **Significant accounting policies (continued):**

(e) Use of estimates:

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

2. **Capital assets:**

| | Cost | Accumulated depreciation | 2003 Net book value |
|---|---|---|---|
| Wind Farm | $ 8,904,685 | $ 630,750 | $ 8,273,935 |
| Work in progress - Norway line | 114,700 | | 114,700 |
| | $ 9,019,385 | $ 630,750 | $8,388,635 |

3. **Royalties payable:**

Royalties payable represents amounts due to Natural Resources Canada in accordance with the provisions of a licensing agreement which came into effect April 1, 1995. Royalties requirements are based on consulting fees and other revenues earned by the company from contracts with third parties.

## 4. Long-term debt:

| | 2003 | 2002 |
|---|---|---|
| Bank of Montreal, 6.6%, payable in equal monthly payments of principal and interest of $ 82,051., due October 2016, secured by signed commitment letter and Province of Prince Edward Island Order in Council guaranteeing full amount of loan | $ 8,816,783 | $ 9,205,454 |
| Less current portion of long-term debt | 415,113 | 388,671 |
| | $ 8,401,670 | $ 8,816,783 |

The aggregate maturities of long-term debt for each of the five years subsequent to March 31, 2003 are as follows: 2004 - $ 415,113.; 2005 - $ 443,355.; 2006 - $ 473,517.; 2007 - $ 505,733.; and 2008 - $ 540,140.

## 5. Contingency:

The Atlantic Wind Test Site Inc. receives cost-shared funding under an operating agreement with Natural Resources Canada. This agreement includes provisions which require the pro-rata repayment of any surplus in the event that activities of the Test Site are terminated. The company has a surplus as of March 31, 2003 of $ 13,413. (2002 - $ 10,640.).

## 6. Other income:

| | 2003 | 2002 |
|---|---|---|
| Interest | $ - | 4,312 |
| | $ - | 4,312 |

## 7. Off-balance sheet financial instruments:

To manage its current and anticipated exposure to interest rate risks, the Corporation has entered into an interest rate swap contract whereby it has fixed the interest rate on a total of $ 9,630,000. of notional principal against the floating interest position assumed by the Bank of Montreal. The swap contract has an effective interest rate of 6.6% and will mature in October 2016.